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DESP. NO.

FROM : AMEMBASSY BENGHAZI

TO : THE DEPARTMENT OF STATE, WASHINGTON.

October 29, 1958
DATE

REF : Embtels 105, 164 and 186 to Dept; Deptel 226 to Benghazi; Tripoli's 270 to Dept.

ICA-10 IO-4 EUR-5

For Dept. Use Only	ACTION	DEPT.
	AF-5	INFO Rm/R-2 REP-1 IRC-8 W-1 W/MSC 3 L-2
	REC'D 11/8	OTHER C/T-12 OSD-4 Army-4 Navy-3 Air-3

SUBJECT: U.S. Economic Aid Program for Libya and Soviet Offers of Assistance

TR-3
XMP-4

to AF 11/12

When I saw the Prime Minister on October 25, I asked him about recent reports in the local newspapers that the Soviets were going to build two hospitals in Libya and that they would be "staffed with Russian doctors and specialists". (See Tripoli's 270 of Oct. 27 to Dept.) This led to a more general discussion of the Soviet offers of aid to Libya.

The Prime Minister described Soviet policy as extremely clever and insidious. The Russians knew when they made offers of assistance to the Libyans that if the latter accepted, they would be able to send their experts, technicians and others into the country to administer or advise. If the Libyan Government refused offers of aid, the Soviet Embassy had ways of assuring that this become common knowledge and that embarrassing questions were asked in Parliament. With a country as poor as Libya, it was difficult to explain why any offers of assistance should be turned down.

The Soviet Chargé d'Affaires had come with an offer of general assistance, implying that the Libyan Government could write its own terms. (Embtel 105 of August 29). The Russians, Mr. Ku'bar said, had offered to build industries and hospitals; had offered to conclude commercial treaties and to establish lines of credits in the Soviet Union; had offered to build the Fezzan Road and the Benghazi Harbor. In effect they had said, "Whatever you want, Mr. Prime Minister, you name it and we will do it". This was a difficult kind of approach to reject, Mr. Ku'bar felt. He was being asked on all sides whether or not he had accepted the Soviet aid offer; even an American correspondent (Landry, UPI, Cairo) had asked him this question. The Prime Minister then launched into a tirade against American procedures in granting its economic aid which covered many aspects of our program here, as well as the position of Wheelus Air Force Base and its contribution to the national treasury. Since the entire interview lasted an hour and twenty minutes and the conversation (all in Italian) during that period was somewhat rambling, I shall attempt to report it by subject rather than chronologically:

DEPARTMENT OF STATE A/CDC/MR
REVIEWED BY J. M. Razi DATE May 6, 1982
E.O. 12356 Sec. 3.4(b)(1)
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J/Jones/Plcc
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1. American Procedures in Granting Aid.

The Prime Minister said that he would speak very frankly to me, and report that the Libyan Government was not satisfied with the cooperation it had been receiving during the last year from "the Joint Services" (LAJS, which is one of the implementing agencies of LARC). It was not clear whether the Prime Minister was referring specifically to Joint Services, which is rather limited, or whether he was referring to LARC, or whether he meant to include all of USOM. In any event, he said there was something about Libyan-American cooperation in this field which didn't work. There was some mystery to him about its inability to function, spend allocated funds and get projects finished. He said that he must soon have a very frank talk with me on the whole subject of our economic aid procedures, which would have to be changed.

He referred to the British as an example of the kind of economic aid policy which was successful. He said the Libyans never had any trouble with the British over their economic assistance, that one never heard any grumblings or muttering against the British, that they were generally respected and liked throughout the country. On the other hand, there was not satisfaction throughout the country with the American aid program. The Libyan people could not see the results of it. Projects started years ago were still incomplete, and the money allocated was still lying dormant and unused. The agricultural program, the Prime Minister felt, was no good and basically a failure. He assured me that the discontent of the Libyan people and officials was not because of any basic anti-Americanism, but rather a growing irritation at the methods of the United States in extending economic assistance. He insisted that a new formula had to be found.

I replied that the history of our economic aid programs abroad was such that I foresaw great difficulty in using our assistance for other than support of the economic development of Libya. Budgetary support, as the Prime Minister knew, was an exception to our rule of extending aid, and had been used only in cases of emergency. I referred to a draft program of assistance for fiscal year '59 which I had seen only that morning and which reflected the area of agreement on the program at the provincial and working level between USOM and Libyan officials. I had asked that a translation into Arabic be made for the Prime Minister in order that he could be kept informed, step by step, of the progress being made at the working level on how U.S. economic assistance should be distributed and expended throughout the Libyan economy in the next fiscal year. I said that I had been greatly impressed by the extent to which this program supported the basic Libyan economy. It added up to a substantial amount; it included "fixed expenses", as in a man's personal budget, which could not, to my mind, be avoided, and I felt the Prime Minister would agree that this kind of assistance could not be eliminated or in any sense be considered unnecessary.

Mr. Ku'bar admitted that American aid was "very necessary", and that the major fruits of it would undoubtedly be seen in four or five years.

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Nevertheless, it was the manner of its extension and the type of aid granted that was unsatisfactory.

I said that above and beyond the type of "fixed expenditures" of the Libyan economy which American aid was meeting, I was prepared to support in my recommendations to Washington additional projects, such as the Fezzan Road and the Benghazi Harbor. I said that I recognized that these were politically important to the Government of Libya, and I felt that they could be justified economically as well. These were projects which could quite properly be fitted into the framework of our present policy of economic assistance as it had developed to date.

2. Wheelus Air Force Base.

The Air Force Base at Wheelus was a cause of increasing complaint from the citizenry residing nearby. He indicated that he had a stack of complaints half a foot high from the residents of Suk el Giuma and other populated areas contiguous to Wheelus. Now Libyans were complaining that they were being driven mad by the noise of the jet planes landing and taking off. Also, a Libyan had been shot and killed recently while bathing in the waters off the Base area. I interrupted Mr. Ku'bar to express my astonishment at this report, which I had never before heard. I did know, I said, that a Libyan had last month been shot in the leg while attempting to escape Air Police custody, having been apprehended illegally on the Base itself. (Inquiries of the Base Commander at Wheelus reveal that this report is entirely untrue and the Prime Minister subsequently acknowledged that the shooting had not been fatal.)

In referring to the general dissatisfaction with our economic aid program, the Prime Minister said that it would be much better to have a fixed amount of rent paid for the Base at Wheelus directly to the Government of Libya and finish with the entire economic aid program. He recalled that after 1960 the present Special Funds which the Libyan Government is receiving from the U.S. Government would, under the terms of the present agreement, be reduced to one million dollars a year for the next ten years. He said Libya could not possibly accept this reduction, that it would be impossible politically to permit the continued operation of Wheelus Base on Libyan soil for this amount of annual payment, and that, if this were to be our final answer, he, as Prime Minister, would say "close your Base and take it away". He said that the Libyan-American agreement had been made in 1954 in the light of circumstances at that time. Now we were in 1958, and the agreement should be reviewed to fit the circumstances of the present. He said that he would like to talk to me further on this subject.

In the light of Deptel 226 of October 21, I did not attempt to pursue this point, merely recalling that Special Funds amounted to four million dollars a year through 1960; that we were still in 1958, and that 1961 was still a long way off.

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This was the first time the Prime Minister had spoken directly to me of his desire to revise the financial arrangements (Special Funds) of the 1954 Agreement. This was the opening sally. We shall undoubtedly hear more on this question.

3. United States Government Loans.

In attempting to explain that the delays in approving projects were not always the fault of the American side of LARC and Joint Services, I mentioned the Tripoli Power Plant as an example of indecisiveness and hesitation on the part of the Libyans. After his raising and my refuting the usual Libyan charges about our failure to submit the latest contract for the power plant to international tender, the Prime Minister then attacked our present loan policy which, he said, insisted on maintaining control of funds after they had been lent. The Government of Libya did not like to enter into loan arrangements in the first place, but certainly, he said, if it did borrow money on which it was paying interest and repaying capital, it should be able to use the money as it wished, to make contracts with whom it desired, and buy machinery where it willed. Furthermore, he could not possibly conceive how a power plant, for a city the size of Tripoli, could cost 13 million dollars. This he considered a great deal of money, and he implied that there was much in the project which was extravagant and unnecessary. I, of course, defended the terms of the loan as being extremely favorable, and told the Prime Minister that I felt sure the Libyan Government would have a hard time trying to finance the Tripoli Power Plant at better terms elsewhere.

While on the subject of loans, he referred to the Agricultural Bank which, he said, was not going at all well. The Bank needed assistance; it had applied to us for assistance, and our reply was a loan. When the bank was in distress, he said, it could ill afford a loan, and furthermore, not even this had materialized.

While I have been aware of the Libyan Government's aversion to borrowing either at home or abroad, I was also made aware of the present Government's impatience with and suspicion of any link between the availability of Development Loan Funds and the awarding of prime contracts to American firms.

4. Prime Minister's Foreign Policy.

In assuring me that the above lecture was made in a friendly spirit and in the belief that frank discussion was the best kind of diplomacy, the Prime Minister declared that he had always, since the inception of Libyan independence, believed in close collaboration with the Western Powers. He said his foreign policy was based on three principles:

(1) Arab Unity; (2) Close ties with the West; and (3) avoidance of entanglement with the Soviet Bloc.

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He said that he still believed in this; that it was a conviction of the heart that this was the best policy for Libya. He went on to say that he also was convinced that the United States was the best country to work with since it had no selfish interests in Libya. America was rich; it did not need to engage in commercial or economic exploitation of other countries. In Libya, for example, he was sure the United States had no desire to remain and dominate the country. When Libya were strong and no longer needed American assistance to stand on its own feet, we would, he felt sure, be delighted to leave and be rid of any further responsibility.

(Copy)

J. Wesley Jones

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